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TAXATION OF MORTGAGES.

REPORT OF THE COMMITTEE

ON

STATE AND MUNICIPAL TAXATION

OF THE

Chamber of Commerce of the State of New York.

SUBMITTED TO THE CHAMBER JANUARY 7, 1904, AND ORDERED TO BE
PRINTED FOR DISTRIBUTION.

To the Chamber of Commerce :

During the last few years bills regarding the taxation of mortgages have been offered frequently in the Legislature. The most notable were :

In 1900, to provide for an annual tax of one-half of one per cent., exclusive of all other taxation, the proceeds to go to the State.

In 1901, to relieve mortgages of all taxation.

In 1902, to provide a recording tax of one-half of one per cent. in lieu of all other taxation, the proceeds to go to the State.

In 1903, to provide for an annual tax of four-tenths of one per cent. in lieu of all other taxation, the proceeds to go to the State.

This Chamber in each year considered the respective bills, and in each year expressed the view that mortgages ought not to be taxed at all. But the Chamber, in 1902, and again in 1903, declared that as a compromise it approved the recording tax proposition, such recording tax to be levied once for all.

There is no doubt that one or more bills will be introduced during the 1904 session. The advocates of complete exemption will present their view, and it may be that the Administration at Albany will make a further effort to provide additional revenue for the State from mortgage taxation.

In view of this prospect your Committee declares that it adheres

and advises the Chamber to adhere to the position that any taxation whatever of mortgages is wrong, wasteful and vexatious from an economic point of view, and should not be tolerated in a well-ordered commonwealth.

Your Committee presented figures last year that will be found on page 34 of the last Annual Report indicating that in 1902 mortgage indebtedness in Greater New-York alone was about \$2,000,000,000, and that the rate of interest on this vast sum was advanced one-half of one per cent. by the threat of taxation over what it would have been under a system of exemption. This excess interest amounted to nearly \$10,000,000.

Comptroller GROUT stated to your Committee last year that the revenue derived by Greater New-York from mortgage taxation is about \$300,000 a year.

The actual taxation of mortgages and the threat of taxation contained in the law imposed then an extra interest burden of about ten millions. The tax itself yielded about \$300,000.

Your Committee on this bare presentation of the facts feels justified in saying that the whole history of fiscal legislation might be ransacked without result in the effort to find an equal case of economic unwisdom.

The reason why the Legislature does not act in favor of the exemption of mortgages from taxation is mainly as follows :

It happens that in the rural parts of the State the assessors do place on the rolls many of the mortgages held by residents of the respective localities, and that the taxes so derived form an appreciable part of the local revenues. As a result the representatives of such districts in the Legislature have opposed any course of legislation that will deprive the localities of such revenue. As the Legislature has been under the control of up-State interests these views have prevailed.

It should be said, however, that the people of the rural sections are not by any means unaware of the objections to mortgage taxation. Many of them are fully alive to the fact that the threat of taxation advances interest rates on mortgages in the country to the extent of probably one per cent., and that the revenue in each tax district secured by mortgage taxation is offset by the additional burden imposed by the larger interest rate.

At one of the hearings at Albany a farmer from near Syracuse stated the result of mortgage taxation in this way. He had owned,

he said, some land near the city of Syracuse. He sold it for \$1,000, and took a purchase money mortgage for the whole sum. Thereafter that land was taxed to the purchaser, and it was taxed to the earlier owner in an equal amount as the mortgagee. For purposes of taxation \$1,000 had become \$2,000. The purchaser had to pay the tax on the land, and he had to pay in a larger rate of interest a sum sufficient to relieve the mortgage from the burden of the mortgage tax. The farmer could not have illustrated the economic evils of mortgage taxation more forcibly, and there is no reason to doubt that many people in the rural districts are just as well informed on the subject as he was.

It should not be forgotten that there are interests in the urban communities that may be held to have occasion to oppose the exemption of mortgages. Life Insurance Companies, Savings Banks, and Building and Loan Societies pay no taxes on mortgages. The exemptions in their favor were asked for and granted, no doubt, on broad lines of public policy. The arguments used must have been largely the same as those used in favor of the exemption of all mortgages.

It is due to the corporations so exempted to say that while the failure to exempt all mortgages gives them wider command of mortgage loans and increases interest rates to their benefit, they have never, so far as your Committee knows, opposed total exemption. There has been some opposition from New-York, but this may have been due to divergent views upon the general subject rather than to a selfish disposition. Whatever its cause the Chamber must stand absolutely for the conclusions it has so often expressed, and must indulge the hope that no interest, however important, will seek gain for itself in a public loss.

Taking the situation just as it is, your Committee is of the opinion that the Legislature may now be properly asked :

- 1st. To abandon mortgage taxation altogether ; or,
- 2d. To abandon it in the urban communities ; or,
- 3d. To allow the urban communities to decide for themselves whether they will make mortgages free in their respective districts.

Your Committee submits the following resolution :

Resolved, That the Chamber accepts and approves the foregoing

report, and requests the Secretary to print it for the use of its members, and to transmit copies of it to the Governor of the State and each member of the Legislature.

Respectfully submitted.

(Signed,)

GEORGE F. SEWARD,
CLARENCE H. KELSEY,
JOSEPH C. HENDRIX,
FRANK H. SCOTT,
ISAAC N. SELIGMAN,
GEORGE FOSTER PEABODY,
GEORGE HAVEN PUTNAM,

} *Committee
on State and Municipal
Taxation.*

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